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PHH

S. J. H.
Peterson, Howell & Heather
(Canada) Limited

Annual Report
1976





Financial Highlights

For the year ended
August 31, 1976

	1976	1975
Total revenues	\$21,534,000	\$18,229,000
Increase over previous year	18.1%	14.8%
Income from Canadian operations	678,000	581,000
Increase over previous year	16.7%	18.8%
Net income after allowing for loss of associated companies	662,000	560,000
Earnings per share	99¢	84¢
Dividends paid	214,000	187,000
Per share	32¢	28¢

Peterson, Howell & Heather (Canada) Limited was founded in 1955, and 21 years later is Canada's largest vehicle fleet management and leasing company offering a full range of professional services to its clients.

Services include counselling on all aspects of fleet management, selec-

tion of vehicles and equipment, purchase and sale of vehicles, replacement timing, expense management, financing, taxes, licensing, insurance, maintenance, and administrative procedures.

Related services offered by PHH include purchase arrangements for

fuel, maintenance, and tires, as well as for daily car rentals, all at attractive prices.

Controlled and managed by Canadians, PHH Canada has international associates in the United States and England.

Directors' Report to the Shareholders

Your directors are again pleased to report record revenues and earnings for the year ended August 31, 1976. After providing for income taxes, net income at \$662,000 showed a gain of 18% over the year ago level of \$560,000. Earnings per share also posted an 18% increase, rising from 84¢ to 99¢.

Dividends paid during the year totalled 32¢ as compared to 28¢ the previous year, thereby marking the 12th consecutive year in which the Company has increased its dividends.

The economic climate had the effect of limiting growth in existing vehicle fleets and in the case of some established clients there was a contraction in the number of automobiles operated by their field organizations. On the sales side, some 38 new clients adopted the fleet management and leasing programs for their vehicle fleets. Net rentals at \$5,649,000 showed an increase of 15.7% over the year ago level of \$4,882,000 while fees from management services reached \$454,000 for a 38% increase over the previous year.

During the year, the first rentals were received on the lease of railway rolling stock that was reported in last year's Annual Report. With these revenues included, total net revenues increased from \$5,211,000 to \$6,690,000 — an increase of 28.4%. Interest expense at \$3,603,000 reflected the increased investment in leased vehicles and the investment in railway rolling stock. Other operating expenses at \$1,808,000 increased by 13.6% over the previous year's total.

New "PHH Service Card" programs introduced at the beginning of the

year contributed significantly to growth in client billings. Notable among the new uses for the Card was the gasoline program with Imperial Oil retail outlets across Canada now honouring the "PHH Service Card". While gasoline purchases tend to be marginally profitable they make an important contribution to the marketability of the primary services of fleet management and leasing.

In the early months of the year a Truck Department was organized to perform management services for truck fleets similar to those carried out for fleets of passenger cars. Starting from modest beginnings, the new department showed a significant gain in the number of new trucks purchased and delivered. There is a large potential market for this department.

During the fiscal year management developed and implemented a plan to enhance the Company's overall marketing effectiveness. The field organization was materially strengthened. In addition an office was opened in Toronto. The Ontario market presently accounts for a major portion of the total business of your Company.

Over the past four years the Company has participated in the introduction of fleet management and leasing services in England. Substantial progress was made in the past year toward a break-even point. The Company's share of last year's loss was \$16,000 as compared to \$21,000 in the prior year.

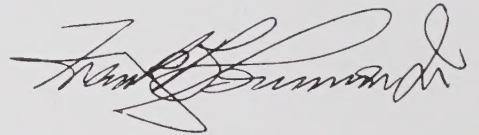
In May 1976 your directors accepted with regret the resignation of Mr. William H. Hill of Baltimore, Maryland, as

a director and officer of the Company. During his many years on the Board he made an outstanding contribution in the guidance of the Company's affairs.

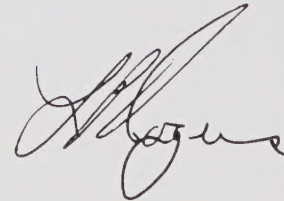
At a directors' meeting on May 6, 1976, Mr. Edgar H. Gibson was elected a director to fill the vacancy created by the resignation of Mr. Hill. Mr. Gibson is resident in Toronto, Ontario, and until recently was Chairman of the Board of Consolidated-Bathurst Packaging Limited.

The results of the past year were achieved through the continuing dedication of all personnel to the highest standards of service. Their enthusiasm and sense of purpose will be primary factors in meeting the challenge of change and in ensuring the Company's future success.

On the basis of current market activity, your directors look for a substantial increase in business during the coming year.



Chairman of the Board



President

November 4, 1976.



Right
Frank B. Common Jr., Q.C.,
Chairman of the Board.

Left
Lloyd P. Rogers, President.



PHH Fleet Management Services

PHH, Canada's largest vehicle fleet management and leasing company, offers a total and professional service to almost 300 corporate clients operating some 13,000 units throughout the country.

PHH's leasing and fleet management programs cover a wide variety of vehicles including automobiles, trucks, railway rolling stock, construction equipment, industrial lift trucks plus many other types of mobile equipment.

The important automobile fleet management and leasing business continues to be the cornerstone of PHH's operations. Some clients own their vehicles and utilize only the PHH management services, while others also lease their fleet from PHH.

Key aspects of PHH's service to clients include:

- The purchase of new cars at competitive prices on a nationwide basis.
- Development of car replacement schedules based on market factors and the mileage rate of the individual vehicle. PHH also arranges the sale of used vehicles across Canada to obtain the best resale values.
- Through its computer facilities, PHH develops and issues to clients total reporting systems for their automobile and related expenses. The extensive vehicle operating data accumulated through this service forms the basis for the PHH recommendations and client counsel.
- Regular newsletters are sent to clients containing the newest ideas and developments on a broad variety of topics related to cars, the industry, and travel. Standard administrative manuals and brochures are also provided to each client.
- The PHH Service Card makes available to clients a broad spectrum of products and services at discounted prices; these include gasoline, mechanical repairs, car rentals, tires, and batteries.

- With PHH's "actual cost" leasing program a client pays only the actual depreciation on each vehicle plus interest and management fees. All operating costs are paid by the lessee. Pioneered by PHH, this system offers a wide selection of amortization schedules as well as buy and lease-back arrangements for clients wishing to convert company-owned vehicles to cash. It has proven to be the most economical method of controlling fleet operating expenses while keeping administrative costs to a minimum.

Truck Fleet Management Services

During the past year PHH's truck fleet management services have experienced dramatic growth, and a separate department has been es-

tablished to continue providing a highly professional service to clients.

Client service begins with a PHH-assisted job analysis and the subsequent development of specifications to ensure the right equipment is selected for the work to be done — thus providing optimum efficiency and economical cost of operations.

Once the right equipment has been specified, PHH's complete knowledge of the market ensures that the customer gets uniform and competitive prices across Canada. In some instances, volume purchases in a particular location can result in even more favourable prices.

Many clients have found that savings in the purchasing area alone more than pay for the cost of all PHH truck management services.

During the period of the vehicle lease, PHH provides special services such as negotiating and settling warranty claims with the manufacturer; resolving registration, title, or tax problems; assisting with recall campaigns, and providing up-to-date technical data as required to clients.

PHH also develops vehicle replacement programs to suit the individual requirements of clients. Such a program ensures that a truck fleet is always composed of safe, dependable, efficient, and attractive units, and that the maximum resale value is finally obtained through lower depreciation and PHH's expertise in the used truck market in all parts of Canada.



Consolidated Balance Sheet

August 31, 1976

Assets	1976		1975	
Leased Vehicles				
Original cost	\$64,251,000		\$56,040,000	
Accumulated depreciation	24,587,000	\$39,664,000	22,010,000	\$34,030,000
Lease Receivable				
Railway Rolling Stock		6,563,000		6,796,000
Other Fixed and Miscellaneous Assets				
Investment in shares and advances to associated companies	33,000		36,000	
Furniture, leasehold im- provements and automobiles at cost less accumulated depreciation	201,000		171,000	
Expenses of debt issue less amortization	55,000		—	
Prepaid expenses	2,000	291,000	2,000	209,000
Cash and Receivables				
Accounts receivable	872,000		723,000	
Income tax recoverable	—		105,000	
Cash on deposit with Trustee (note 3)	61,000		67,000	
Cash	261,000	1,194,000	114,000	1,009,000
		\$47,712,000		\$42,044,000

See accompanying notes

Approved on behalf of the Board
Frank B. Common, Jr., Director,
L. P. Rogers, Director.

Liabilities and Shareholders' Equity		1976	1975	
Borrowed Funds				
Payable on demand or within one year				
Bank and other demand loans (note 2)	\$ 3,591,000		\$ 6,073,000	
Loan from associated company	—		512,000	
Current portion of long-term debt	10,298,000	\$13,889,000	6,296,000	\$12,881,000
Long-term				
Debentures (note 3)	10,599,000		12,675,000	
Secured Equipment Notes (note 5)	5,801,000		6,010,000	
Term loans (note 4)	19,728,000		10,415,000	
	36,128,000		29,100,000	
Less amount due within one year	10,298,000	25,830,000	6,296,000	22,804,000
		39,719,000		35,685,000
Accounts Payable and Accrued Charges		1,770,000		1,101,000
Current Income Taxes		47,000		—
Deferred Income Taxes		3,070,000		2,600,000
Shareholders' Equity				
Capital stock (note 6)	925,000		925,000	
Retained earnings	2,181,000	3,106,000	1,733,000	2,658,000
		\$47,712,000		\$42,044,000

To the Shareholders of
Peterson, Howell & Heather
(Canada) Limited:

We have examined the consolidated balance sheet of Peterson, Howell & Heather (Canada) Limited and its subsidiaries as at August 31, 1976 and the consolidated statements of income, retained earnings and changes in financial position for the year then ended. Our examination included a general review of the accounting procedures and such tests

Auditors' Report

of accounting records and other supporting evidence as we considered necessary in the circumstances.

In our opinion these consolidated financial statements present fairly the financial position of the companies as at August 31, 1976 and the results of their operations and changes in fi-

nancial position for the year then ended, in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Clarkson, Gordon & Co.

Chartered Accountants

Montreal, Canada,
November 1, 1976.

Consolidated Statement of Income

For the year ended
August 31, 1976

REVENUE ON PAGE 1

	1976	1975
Rentals on leased vehicles	\$20,260,000 ✓	\$17,900,000
Less depreciation on leased vehicles	14,611,000	13,018,000
Net rentals on leased vehicles	5,649,000	4,882,000
Net rentals on railway rolling stock	587,000	—
Fees from management services	454,000	329,000
	6,690,000	5,211,000
Interest on Debentures and Secured Equipment Notes..	1,514,000	1,070,000
Interest on term loans	1,588,000	781,000
Net short-term interest	501,000	618,000
Operating expenses	1,766,000	1,555,000
Depreciation on miscellaneous fixed assets	42,000	36,000
	5,411,000	4,060,000
Income before income taxes	1,279,000	1,151,000
Income taxes	601,000	570,000
Income from Canadian operations	678,000	581,000
Company portion of loss of associated companies	16,000 —	21,000 ✓
Net income for the year	\$ 662,000	\$ 560,000 -
Earnings per share	99¢	84¢

Consolidated Statement of Retained Earnings

For the year ended
August 31, 1976

	1976	1975
Balance — beginning of year	\$1,733,000	\$1,360,000
Add net income for the year	662,000	560,000
	2,395,000	1,920,000
Less dividends paid:		
Class A shares	182,000	159,000
Class B shares	32,000	28,000
	214,000	187,000
Balance — end of year	\$2,181,000	\$1,733,000
See accompanying notes		

Consolidated Statement of Changes in Financial Position

For the year ended
August 31, 1976

	1976	1975
Funds Provided		
<i>Operations</i>		
Rentals on leased vehicles	\$20,260,000	\$17,900,000
Rentals on railway rolling stock	820,000	—
Fees from management services	454,000	329,000
	21,534,000	18,229,000
Deduct expenses requiring outlay of funds in the year	5,369,000	4,024,000
Deduct current income taxes	131,000	20,000
	16,034,000	14,185,000
<i>Borrowed Funds</i>		
Net increases in term loans	9,313,000	3,813,000
Increase (decrease) in demand loans	(2,482,000)	983,000
Issue (repayment) of Secured Equipment Notes	(209,000)	6,010,000
Repayment of Debentures	(2,076,000)	(2,076,000)
Loan from an associated company (and repayment of)	(512,000)	512,000
	4,034,000	9,242,000
Net change in receivables less payables	671,000	(331,000)
	\$20,739,000	\$23,096,000
Funds Applied		
Purchase of leased vehicles	\$26,268,000	\$21,639,000
Less proceeds on sale of leased vehicles	6,024,000	5,716,000
	20,244,000	15,923,000
Purchase of railway rolling stock	—	6,796,000
Net additions of miscellaneous fixed assets	72,000	136,000
Unamortized portion of expenses of debt issue	55,000	—
Investment in associated companies	13,000	21,000
Dividends paid	214,000	187,000
	20,598,000	23,063,000
Increase in cash	141,000	33,000
	\$20,739,000	\$23,096,000

See accompanying notes

Notes

To Consolidated Financial Statements August 31, 1976

1. Summary of Accounting Policies

(a) Principles of consolidation

The consolidated financial statements include the accounts of Peterson, Howell & Heather (Canada) Limited and its subsidiaries, all of which are wholly owned. In addition, a 10% investment in PHH Leasing Limited and a 16% investment in PHH Services Limited, two British

companies, have been recorded on the equity basis. These latter investments have been converted to Canadian funds on the basis of prevailing rates at the time of the original investment. Net income or losses since acquisition have been converted at the average rates of ex-

change for the accounting periods concerned. The shares of PHH Leasing Limited are partly paid-up and, at the discretion of the directors of that company, further calls may be made to the extent of £90,000 (\$150,000).

(b) Valuation of leased assets and income recognition

The Company leases vehicles under an open-end arrangement subject only to a minimum lease term of 12 months. Railway rolling stock is leased over a fixed term of 15 years.

Vehicle leases are accounted for under the operating method whereby the investment in leased vehicles is recorded at cost and depreciation is provided in accordance with the terms of the leases. All vehicles placed in service since September, 1970, are being depreciated at straight-line rates; passenger cars being fully depreciated in from 40 to 50 months; and trucks, tractors and trailers being fully depreciated in from 40 to 80 months. Each lease provides that if proceeds of sale are greater or less than book value, the surplus or deficit will be passed on to the lessee as a rental adjustment.

Since the period of service for any of these vehicles cannot be predeter-

mined, the precise amount to be received on these contracts within any specific period cannot be ascertained. However, if the vehicles in service at the year end remained in service until fully depreciated, the following amounts would be recorded as depreciation:-

Year to August 31, 1977	\$16,024,000
1978	13,458,000
1979	7,822,000
1980	2,138,000
1981	186,000
Thereafter	36,000
	<u>\$39,664,000</u>

Vehicle rentals are billed monthly in advance and taken into income when billed.

The railway rolling stock lease is accounted for by the finance method under which the investment is recorded as a lease receivable at the

present value of future rentals discounted using the effective interest cost to the lessee. The rentals to be received in the next five years will result in lease receivables being reduced by the following amounts:

Year to August 31, 1977	\$278,000
1978	275,000
1979	300,000
1980	327,000
1981	356,000

Railway rolling stock rentals are receivable in U.S. funds at semi-annual intervals, and the portion of the rental representing interest on the Company's investment will be taken into income as earned with the balance of the rental being applied to reduction of the lease receivable as noted above.

(c) Income taxes

The Company follows the tax allocation method of providing for income taxes. Under this method, income taxes shown in the Consolidated

Statement of Income have been calculated on the basis of the reported income as opposed to the income currently taxable. The deferred income taxes shown on the Consoli-

dated Balance Sheet are the result of the Company claiming for tax purposes capital cost allowances in excess of the depreciation provided in the accounts.

2. Bank and Other Demand Loans

The Company and a wholly-owned leasing subsidiary finance part of their investment in leased vehicles by demand loans from two banks and a commercial lending organization. The bank loans are secured by Debentures issued by the Company

and its subsidiary which are held under pledge arrangements. These Debentures are considered outstanding only to the extent of the amount actually borrowed under these ar-

rangements. The other demand loan is secured by the assignment of two leases. Interest on the demand loans fluctuates with changes in the prime rate.

3. Debentures Outstanding

	1976	1975
8.00% Series XK (\$400,000 U.S.)	\$ 430,000	\$ 538,000
7.86% Series XM	8,855,000	10,605,000
9.00% Series XN	1,314,000	1,532,000
	10,599,000	12,675,000
Amount payable within one year	2,076,000	2,076,000
	\$ 8,523,000	\$10,599,000

The Debentures are secured by an assignment of the rentals on leased vehicles financed from the proceeds of the Debentures and by a floating charge on such vehicles. As rentals

are received they are deposited with the Trustee for the Debentureholders and are withdrawn in accordance with the terms of the Trust Deed.

The Series XK, XM, and XN Debentures mature as follows:-

	Annual Principal Payment	Period	Residual Principal Maturity
8.00% Series XK	\$ 108,000	1977 to 1979	May 31, 1980
7.86% Series XM	1,750,000	1977 to 1980	January 1, 1981
9.00% Series XN	218,000	1977 to 1981	January 1, 1982

4. Term Loans

The Company and two wholly-owned subsidiaries have financed leased vehicles by means of term loans. These loans are collaterally secured by Debentures which, in turn, are secured by assignments of the rentals payable on the leased vehicles financed with the proceeds of such loans.

The agreements in connection with the term loans contemplate that additional advances will be made from time to time as additional leased vehicles are purchased or existing vehicles are replaced. The advances have been made at various rates of interest from 7.00% to 13.50%.

The repayments required on the term loans are related directly to the rentals to be received on the leased vehicles financed by such loans or to the proceeds of sale for any vehicles retired from service. Assuming that the vehicles financed by these loans remain in service until fully depreciated, repayment of the loans will be made as follows:-

Notes

Year to August 31, 1977	\$ 7,970,000	In the event that some of the vehicles financed under these arrangements are sold before they become fully depreciated, the foregoing schedule of repayments will be accelerated.
1978	6,694,000	
1979	3,890,000	
1980	1,063,000	
1981	93,000	
Thereafter	18,000	
	\$19,728,000	

5. Secured Equipment Notes

The 10½% Secured Equipment Notes are payable in U.S. funds and are secured by a charge on the railway rolling stock and on the rentals provided for in the lease of such equipment.

The terms of issue of the Secured Equipment Notes provide for repay-

ment in semi-annual instalments over a period of fourteen years.

The principal instalments due in the next five years will be:-

Year to August 31, 1977	\$252,000
1978	253,000
1979	281,000
1980	309,000
1981	341,000

6. Capital Stock

The authorized capital of the Company consists of 1,000,000 Class A shares without nominal or par value and 100,000 Class B shares without nominal or par value. The Class B shares are convertible into Class A shares on a share for share basis.

Conversion may take place at any time up to and including June 30,

1980, and under certain circumstances conversion must take place earlier, but in any event all Class B shares then outstanding will be converted on July 1, 1980. Class A shares are entitled to one vote per share and Class B shares are entitled to 100 votes per share.

The issued and fully paid capital as at August 31st was:

	1976	1975
568,824		
Class A shares	\$825,000	\$825,000
100,000		
Class B shares	100,000	100,000

7. Remuneration of Directors and Officers

The total remuneration paid to the twelve directors and one former director for their services as directors during the year was \$45,000. The total remuneration paid to the officers as a group (seven persons of whom four were directors) for their services as officers during the year was \$193,000.

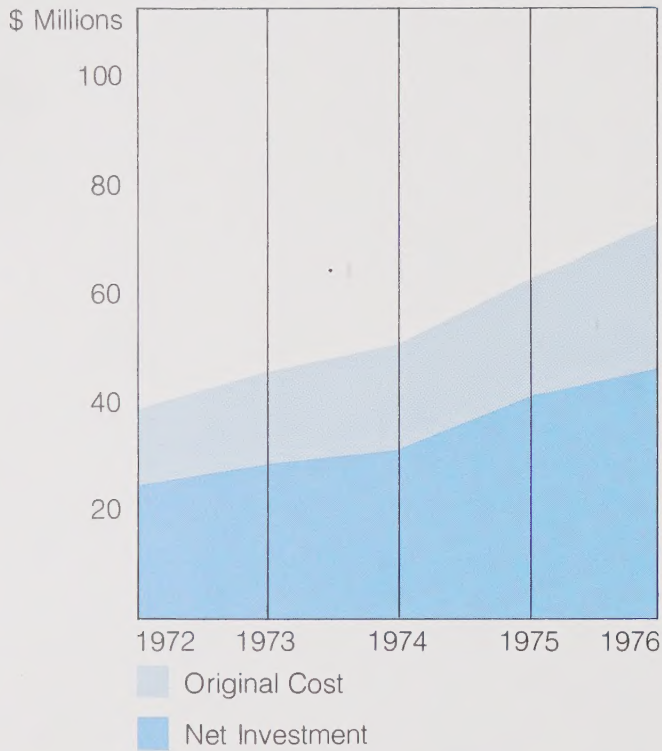
Five Year Review

Years ending August 31

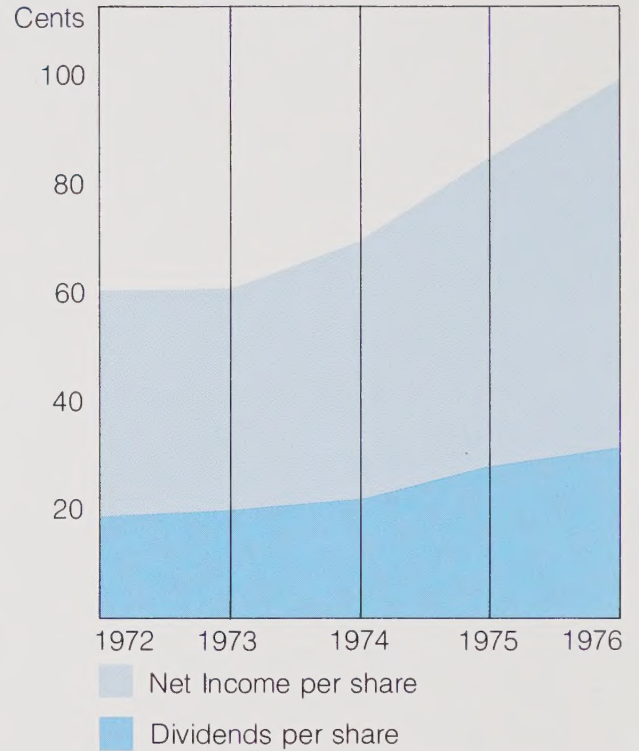
	1976	1975	1974	1973	1972
Investment in Leased Vehicles					
Original cost	\$64,251,000	\$56,040,000	\$50,047,000	\$44,497,000	\$38,280,000
Book value	39,664,000	34,030,000	31,125,000	28,323,000	24,833,000
Book value as a percentage of original cost	61.7%	60.7%	62.2%	63.7%	64.9%
Investment in Leased Railway Rolling Stock	6,563,000	6,796,000	—	—	—
Borrowed Funds					
Secured	39,719,000	29,163,000	26,443,000	23,457,000	21,230,000
Unsecured	—	6,522,000	—	400,000	—
Total	39,719,000	35,685,000	26,443,000	23,857,000	21,230,000
Borrowed funds as a percentage of total investment in leased vehicles and equipment	85.9%	87.4%	85.0%	84.2%	85.5%
Shareholders' Equity	3,106,000	2,658,000	2,285,000	1,968,000	1,703,000
Equity per share	4.64	3.97	3.42	2.94	2.55
Operating Results					
Rentals on leased vehicles	20,260,000	17,900,000	15,566,000	13,111,000	11,254,000
Depreciation on leased vehicles	14,611,000	13,018,000	11,610,000	9,793,000	8,145,000
Net rentals leased vehicles	5,649,000	4,882,000	3,956,000	3,318,000	3,109,000
Net rentals railway rolling stock	587,000	—	—	—	—
Fees from management services	454,000	329,000	315,000	246,000	227,000
Interest expense	3,603,000	2,469,000	2,081,000	1,702,000	1,548,000
All other expenses	1,808,000	1,591,000	1,229,000	1,022,000	1,033,000
Loss of associated companies	16,000	21,000	25,000	31,000	—
Net income	662,000	560,000	464,000	399,000	395,000
Earnings per share	99¢	84¢	69¢	60¢	60¢
Cash dividends per share	32¢	28¢	22¢	20¢	19¢

Five Year Review

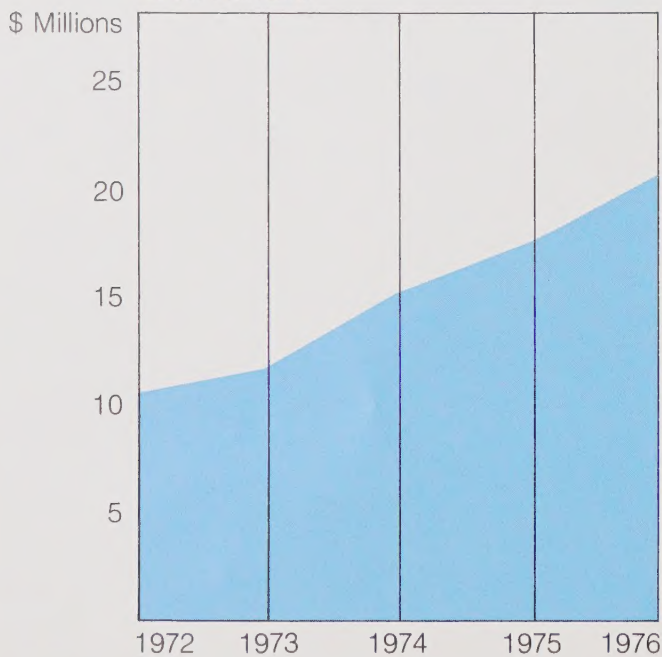
Leased Vehicles & Equipment



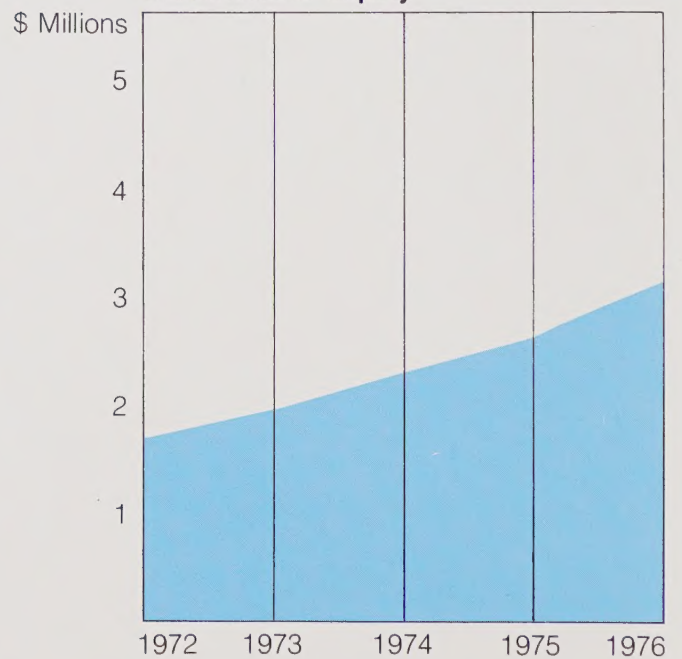
Earnings & Dividends



Total Rentals



Shareholders' Equity



Directors

William J. Bennett
Montreal, Que.

John N. Cole
Montreal, Que.

*Frank B. Common, Jr., Q.C.
Montreal, Que.

F. Campbell Cope, Q.C.
Montreal, Que.

*Jerome W. Geckle
Baltimore, Md.

Edgar H. Gibson
Toronto, Ont.

George A. Goad
Montreal, Que.

*John S. Lalley
Baltimore, Md.

*Lloyd P. Rogers
Montreal, Que.

J. Angus Ogilvy, Q.C.
Montreal, Que.

Richard R. Smith
Montreal, Que.

Lloyd B. Taft
New York, N. Y.

Officers

Frank B. Common, Jr., Q.C.
Chairman of the Board

Lloyd P. Rogers
President & Chief Executive Officer

Richard R. Smith
Executive Vice-President & Treasurer

R. Keith Price
Vice-President

James A. S. Walker
Assistant Vice-President

Paul St-Julien
Comptroller

Robert L. Munro
Secretary

Eileen M. Crosby
Assistant-Secretary

G. Ruth Hanson
Assistant-Treasurer

*Members of the Executive Committee

Registrar and Transfer Agent:
Montreal Trust Company

Auditors:
Clarkson, Gordon & Co.

Peterson, Howell & Heather
(Canada) Limited
3 Place du Commerce
Ile des Soeurs, Montreal
Quebec H3E 1H7

Suite 514
45 Sheppard Avenue East
Toronto, Ontario M2N 2Z8

Associated Companies

Peterson, Howell & Heather, Inc.
11333 McCormick Road
Hunt Valley
Maryland 21031, U.S.A.

PHH Services Limited
PHH Leasing Limited
Albert Street
Slough SL1 2BH, England